Homeowner
Protection Office

Homeowner Protection Office

Annual Report 2003|2004

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Message from the Chairperson to the Minister

Ken MacLeod, Chairperson

Honourable Murray Coell
Ministry of Community, Aboriginal and Women's Services
Minister Responsible for Housing
Province of British Columbia

Minister,

I am pleased to present to you the 2003/2004 Annual Report for the Homeowner Protection Office (HPO) in accordance with the *Budget Transparency and Accountability Act.*

The HPO, now over five years old, continues to play an active role in developing and maintaining consumer confidence in the residential construction industry as well as bringing about an improvement in the quality of construction in British Columbia.

At the direction of the provincial government, the HPO remains a Crown corporation responsible for licensing residential builders, research and education as well as delivering financial assistance to many owners of leaky homes. A new board of directors was appointed which now more closely represents the HPO's stakeholder base – consumers, developers and builders. The board is in the process of developing a "Futures Report" which will contain recommendations to present to the Province regarding suggested changes to the HPO, the *Homeowner Protection Act* and regulations. Recent consultations and surveys with Licensed Residential Builders and new home buyers will help form the basis for the upcoming recommendations.

Residential construction continued to increase in the province with 33,191 new homes registered with the HPO in 2003/04, representing a 32% increase from the previous year. Interest rates, still at 40-year lows, continued to generate significant demand for housing. In an era where purchasing decisions are often made quickly, the consumer protection provisions of the *Homeowner Protection Act,* which ensure that builders meet minimum standards and new homes are covered by the strongest construction defect insurance in Canada, are valued standards.

To meet the current demand for new home construction an additional 733 residential builders became licensed with the HPO this year to reach a new all-time high of 3,760 licensed builders in the province. Our Research and Education Department launched the well-attended Building Smart seminar series which was delivered in several cities in the province and provided practical information on avoiding moisture problems in the construction of houses that can occur in the various climates in B.C. The office, in conjunction with industry partners, also planned a full-day symposium for the industry to disseminate the latest building science research results to the industry in May 2004.

104-06093/

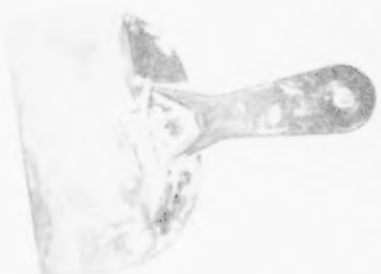
Despite the end of the Federal contribution for the Reconstruction Loan Program for owners of leaky homes, the Province continues to provide funding for the necessary no-interest repair loans for all eligible applicants. Loan recipients paid back an additional $38.9 million in principal on their no-interest loans providing a strong indication that the system is working — owners under the program do not lose their homes due to the cost of repairs and long-term, viable solutions are being performed by Licensed Building Envelope Renovators who arrange for home warranty insurance on their work.

Over the past five years, the HPO has been successful in introducing a system of consumer protection which also brings about improved construction practices. We look forward to moving ahead with completing and presenting the board's recommendations to the Province which will further benefit consumers and the residential construction industry. As always, our partnerships with the residential construction industry and consumers are key to continued success.

Sincerely,

K MacLeod

Ken MacLeod
Chairperson



Organizational Overview

To be a responsive Crown corporation, leading improvement in the quality of residential construction and an increase in homeowner protection in British Columbia.

Homeowner Protection Office

Who We Are

The Homeowner Protection Office (HPO) is the provincial Crown corporation established to strengthen consumer protection for new home buyers and improve the quality of residential construction in the province. The organization, currently with 33 FTEs (full-time equivalents), was formed in 1998 under the authority of the *Homeowner Protection Act (Act)*.

What We Do

The HPO is responsible for:

Licensing and Home Warranty Insurance
- Administering the residential builder and building envelope renovator licensing system province-wide
- Monitoring the performance of the mandatory, third-party home warranty insurance system offered by the private sector

Research and Education
- Conducting research and education initiatives to benefit the residential construction industry and consumers

Financial Assistance to Owners of Leaky Homes
- Delivering the Homeowner's Reconstruction Loan Program
- Administering the PST Relief Grant Program on behalf of the province

Where We Are

The HPO is located in downtown Vancouver and has field staff responsible for ensuring compliance with licensing and home warranty insurance requirements on residential construction sites across the province.

Who We Serve

The HPO serves homebuyers, homeowners (particularly owners of leaky homes), developers, residential builders and building envelope renovators. In undertaking its activities the HPO also works closely with warranty providers, industry associations, architects, engineers, property managers, the legal community, research organizations, building inspectors, governments including local governments and Canada Mortgage and Housing Corporation, educational institutions, real estate professionals and financial institutions.

Our Strategic Foundation

The HPO's vision, mission and values form the basis of its planning, implementation and maintenance of its program areas.

Vision—To be a responsive Crown corporation, leading improvement in the quality of residential construction and an increase in homeowner protection in British Columbia.

Mission—To help develop and maintain confidence in B.C.'s residential construction industry.

Values—The HPO is committed to:
- Integrity
- Fairness
- Responsiveness
- Accountability
- Teamwork

Corporate Governance

The organization, currently with 34 staff, was formed in 1998 under the authority of the *Homeowner Protection Act (Act)*.

Minister of Community, Aboriginal and Women's Services
Hon. Murray Coell

Board of Directors[1]

Ken MacLeod
Chair, retired from the former B.C. Ministry of Municipal Affairs

Maureen Enser
Executive Director of the Urban Development Institute[2]

Eric Gerrits
Immediate past president of the Canadian Home Builders' Association of B.C. and President of Homescape Building and Design Inc.[3]

Antonio Gioventu,
Executive Director and strata property advisor for the Condominium Home Owners' Association[2,3]

Don Goedbloed
Senior Vice-President of Stuart Olson Construction Ltd.

Joe Redmond
Vice-president of UBC Properties Trust and[4]

Peter Schultze
President of Peter Schultze Construction Ltd. and former president of the Canadian Home Builders' Association of B.C.[3]

Acting Chief Executive Officer / Registrar
Bob Maling

Provincial Advisory Council[4]

Research and Education	Licensing	Loans	Accounting	Communications
John Bell, Manager, R&E	Tom Reeves, Deputy Registrar	Ken Rehill, Manager, Loans	Linda McKay, Manager, Accounting	Jan Calkins, Manager, Communications

Department Responsibilities

Research and Education

Support building science research

Support consumer/ industry education and training

Disseminate research results, and support establishment of "best practices"

Provide input and advice on amendments to the building code

Licensing

License residential builders and building envelope renovators

Maintain registry of licensed builders and building envelope renovators

Administer the *Homeowner Protection Act* and regulations as they pertain to residential builder licensing, home warranty insurance and exemptions for residential construction

Collect license fees

Loans

Deliver Reconstruction Loan Program

Administer the PST Relief Grant Program

Participate at on-site strata meetings to provide information on financial assistance programs

Accounting

Financial management of the HPO including financial reporting

Human resources, information systems, and administration of the HPO

Communications

Issues management, communications planning and media relations

Develop and implement strategies for consumer and industry communications

Management of information line, Web site, events and publications

Support HPO's education mandate

[1] The Board is appointed by the Lieutenant Governor in Council and is responsible for the governance of the HPO.

[2] Member of the Audit and Finance Committee which assists the Board in fulfilling its fiduciary and oversight responsibilities relating to financial reporting and the audit process.

[3] Member of the False Owner-builder Task Force which supports the Board by reporting on and providing recommendations related to the abuse of the owner-builder exemption.

[4] PAC provides policy advice to the HPO CEO regarding residential construction in B.C., research and education initiatives, and consumer information programs. The council includes representatives from the following organizations:

- Architectural Institute of B.C.
- B.C. Construction Association
- Union of British Columbia Municipalities
- Canadian Home Builders' Association of B.C.
- Association of Professional Engineers and Geoscientists
- Condominium Home Owners' Association – 2 representatives
- City of Vancouver
- Home Warranty Insurance Company
- Urban Development Institute
- Building Officials Association of B.C.
- Independent Contractors and Businesses Association of B.C.
- B.C. Federation of Labour – 2 representatives
  - International Union of Painters
  - Allied Trades and United Association of Plumbers and Pipefitters

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The Year in Review

The HPO was successful in carrying out the activities and strategies set out in its 2003-06 Performance Plan.

Now in its sixth year, the Homeowner Protection Office (HPO) continues to work with industry and consumers to increase homeowner protection and to improve the quality of residential construction in British Columbia with reported success.

Performance and Financial Results

- HPO was successful in carrying out the activities and strategies set out in its 2003-06 Performance Plan. In terms of meeting performance objectives:
  - Targets were met or exceeded for six performance measures.
  - The target was not achieved for one measure (leveraging additional research resources through partnerships).
  - Targets relating to homeowner satisfaction with warranty insurance and homebuyer awareness of consumer protections under the *HPA* will be reported on in 2004/05 (surveyed every two years).
  - Data was unavailable to measure performance related to the percentage of homes with warranty insurance claims.
  - Baseline data was obtained for a new measure relating to builder satisfaction with the licensing system.
- The HPO is self-sustaining on a year-over-year basis from its own revenues, which primarily consist of builder license fees. This year, the HPO had a net income of $4.6 million.

Licensing and Home Warranty Insurance

- There has been a steady increase in the number of licensed builders due to the demand for new homes and increased building activity. There were 3,760 licensed residential builders as of March 31, 2004, an increase of 24% over last year.
  - As the work to repair leaky condominiums continued, the number of building envelope renovators licensed by the HPO increased from 65 to 69 over the last year.
- Since July 1999 when the warranty insurance provisions of the *Homeowner Protection Act (Act)* were introduced, more than 80,308 new homes have been covered by mandatory warranty insurance, an addition of 28,797 new homes over last year.
- HPO compliance efforts and revisions to the owner-builder exemption application process continue to reduce the occurrences of abuse by builders attempting to avoid licensing and warranty requirements. This year, owner-built homes account for a 23% share of all single detached homes in British Columbia.

Financial Assistance

- The HPO estimates there are 65,000 homes in B.C., which have been affected by premature building envelope failure, which will cost a total of $1.5 billion to repair. The number of applications received for Reconstruction Loans has continued to decline for the third straight year.
- Repaired residential buildings that once suffered from premature building envelope failure are recovering their market value. Over three-quarters of the owners who had completed repairs to their homes have recovered 90% or more of the value of the cost of the repair in the assessed value of their homes.

Research and Education

- The HPO continues to facilitate and expand B.C.'s focused research and education by using its investments to leverage substantial contributions from other partners. This year, HPO's participation in research and education projects totalled $105,575 while its partners contributed $75,300 to fund five research projects.
- The Building Smart seminar series was launched to provide information on avoiding moisture problems in the construction of wood-frame houses and townhouses across the province.

Report on Performance

The HPO has a mandate to conduct research and education in three main areas: education and training for industry, new and improved technology, and consumer information.

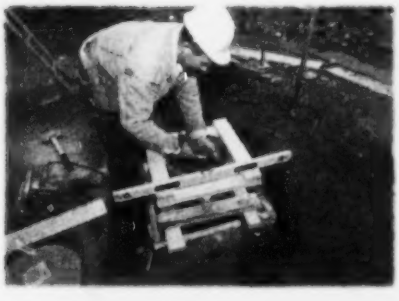
Business Areas and Outputs

Research and Education

The HPO has a mandate to conduct research and education in three main areas: education and training for industry, new and improved technology, and consumer information.

Education and Training for Industry—Workshops, seminars and publications are developed to assist the industry implement new and improved building technologies. The goal is for a greater number of builders to have access to the latest research results, building practices and building science. This technology transfer will raise construction standards and practices, thereby bringing about an improvement in the quality of residential construction.

New and Improved Technology—Building science research projects are carried out by the HPO in collaboration with partners in the residential construction industry to address issues and questions of particular relevance in British Columbia. The goal of these research initiatives, when combined with education and training, is to bring about an improvement in the quality of residential construction.



quality residential construction

John Bell, Manager of Research and Education

2003-04 Education and Training Highlights
as of March 31, 2004

- *Building Smart* seminar educational series on avoiding moisture problems in houses was developed and delivered in five cities across the province (further delivery 2004/05).
- Survey of Licensed Residential Builders and focus groups were carried out to obtain builders' input on the education, training and research needs of the industry, as well as views on licensing and warranty insurance.
- Partnership was established with Canada Mortgage and Housing Corporation (CMHC) and Building Officials Association of B.C. to develop a basic level course on wood-frame house construction.
- HPO-funded research was profiled at six seminars through participation with industry associations and organizations.

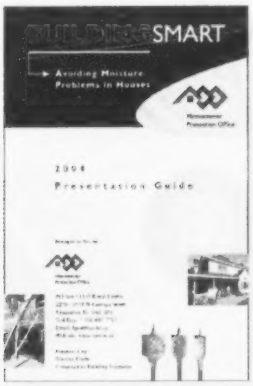
2003-04 Research Project Highlights
as of March 31, 2004

- Study of poured-in-place concrete wall performance was carried out in partnership with CMHC.
- In follow-up to the *Water Penetration Resistance of Windows Study*, a new project was initiated with CMHC and Natural Resources Canada to develop a best practice guide for windows.
- Ongoing research to monitor the performance of rainscreen wall assemblies in the coastal climate of B.C. continued in partnership with BC Housing.
- HPO participated on the Building Research Committee of the B.C. Building Envelope Council and its predecessor Building Envelope Research Consortium (BERC).

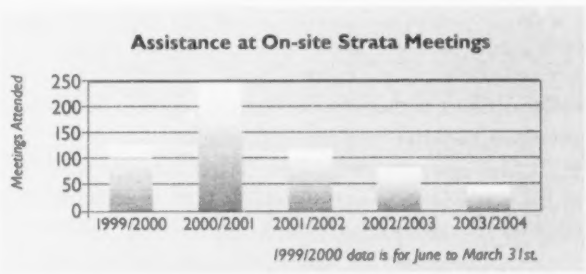
Consumer Information—The HPO provides a wide range of consumer information to assist homebuyers make informed purchasing decisions, and to assist owners of leaky homes in undertaking needed repairs to their buildings. The goal of these initiatives is to bring about an increase in consumer confidence in new and rehabilitated homes through raising the level of awareness of consumer protection measures that are in place in British Columbia.

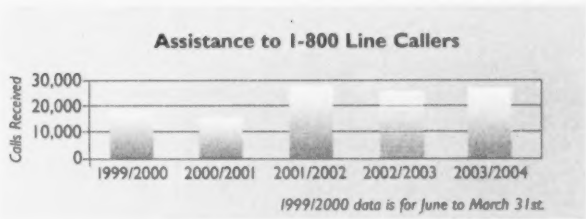
2003-04 Consumer Information Highlights
as of March 31, 2004

- HPO staff attended 43 on-site strata meetings to provide owners with information on financial assistance programs for the repair of leaky homes. Requests for HPO attendance at strata meetings has declined as buildings are repaired.
- 28,021 callers were assisted through the HPO's 1-800 toll-free information line.
- 101,180 website visitors obtained information on HPO programs.
- HPO staff was on hand to answer consumer questions at 10 trade and consumer shows throughout the province.
- The HPO continued to meet the steady demand for its consumer protection information publications and bulletins.



The Building Smart seminar series was well-attended.





wide range of consumer information

The HPO is helping raise the standard and level of professionalism in the industry, increasing builder accountability and protecting consumers.

Business Areas and Outputs *(cont'd)*

Licensing and Home Warranty Insurance

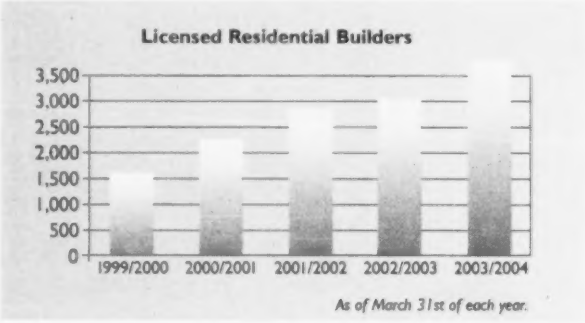
The Homeowner Protection Office (HPO) is responsible for licensing residential builders and monitoring the performance of the mandatory, third-party home warranty insurance system for new home construction and building envelope renovations. These licensing and warranty insurance provisions work in tandem to ensure that builders meet minimum standards and, if a construction defect occurs, the homeowner is protected by Canada's strongest policy of home warranty insurance. Through these initiatives the HPO is helping raise the standard and level of professionalism in the industry, increasing builder accountability and protecting consumers.

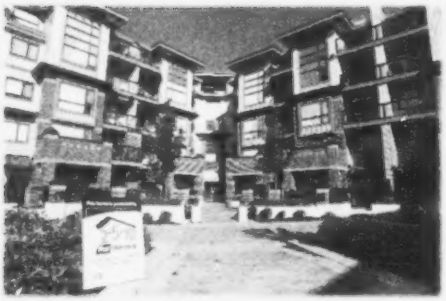
Licensing—Under the *Homeowner Protection Act* (*Act*) all residential builders must be licensed by the HPO and arrange for home warranty insurance prior to obtaining a building permit or commencing construction. Similarly, contractors who act as building envelope renovators are also required to be licensed by the HPO and provide home warranty insurance on building envelope renovations. A registry of licensed residential builders and building envelope renovators is updated daily on the HPO Web site.

Bob Maling, Acting CEO, Registrar and Acting Director of Research and Education

2003-04 Licensing Highlights
as of March 31, 2004

- 3,760 Licensed Residential Builders
- 69 Licensed Building Envelope Renovators
- Licensed Residential Builder survey results:
  - 83% satisfied with the licensing system
  - 92% satisfied with the timeliness of licensing decisions
  - 70% in favour of minimum education and training standards introduced as a requirement of licensing





The 2-5-10 logo is a consumer's assurance that a new home is built by a Licensed Residential Builder and has the strongest construction defect insurance in Canada.

Canada's strongest construction defect insurance

Consumer Information—The HPO provides a wide range of consumer information to assist homebuyers make informed purchasing decisions, and to assist owners of leaky homes in undertaking needed repairs to their buildings. The goal of these initiatives is to bring about an increase in consumer confidence in new and rehabilitated homes through raising the level of awareness of consumer protection measures that are in place in British Columbia.

The Building Smart seminar series was well-attended.

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as of March 31, 2004

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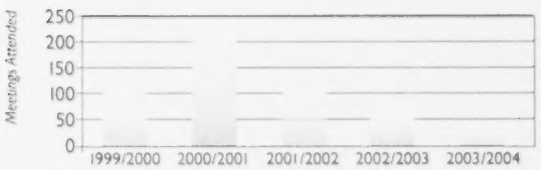
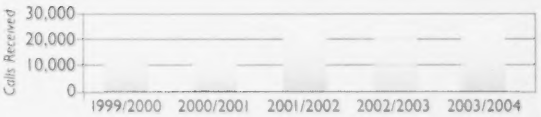
Assistance at On-site Strata Meetings



1999/2000 data is for June to March 31st.

Assistance to 1-800 Line Callers



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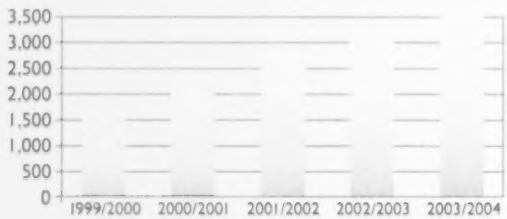


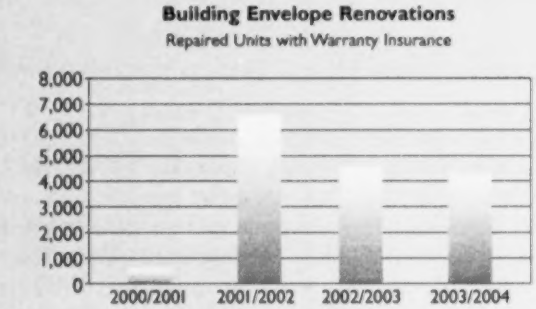
As of March 31st of each year.

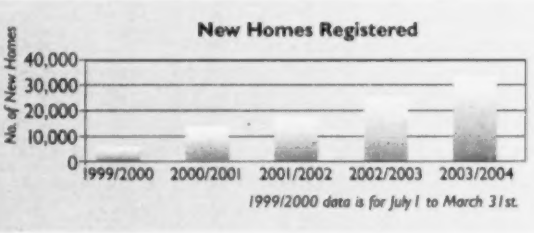
The 2-5-10 logo is a consumer's assurance that a new home is built by a Licensed Residential Builder and has the strongest construction defect insurance in Canada.

Home Warranty Insurance—In B.C. the mandatory minimum home warranty insurance coverage on new homes and residential building envelope renovations is set by legislation. As such, all new homes constructed by Licensed Residential Builders must be covered by the strongest construction defect warranty in Canada, which includes 2 years on labour and materials, 5 years on the building envelope and 10 years on structure (2-5-10 year warranty insurance).

In addition, applicable residential building envelope renovations are covered by home warranty insurance, which includes 2 years on labour and materials and, if 60% or more of the cladding surface on any face of the building is replaced, a 5-year water penetration warranty is also required.

This home warranty insurance may only be sold by insurance companies that are approved by the office of the Superintendent of Financial Institutions (OSFI) and by B.C.'s Financial Institutions Commission (FICOM). As of March 31, 2004 there were five companies offering home warranty insurance in British Columbia.





New Homes Registered and Building Envelope Renovations Under the *Homeowner Protection Act*

	2003/2004	Cumulative: July 1, 1999-March 31, 2004
Coastal Multi-Unit Dwellings (units)[1]	14,682	35,011
Other Dwellings (units)[2]	14,115	45,297
Owner-Builder Exemptions (single detached homes)	2,771	11,789
HPO Warranty Exemption (multi-unit)	1,623	5,120
Total Starts	**33,191**	**97,217**
Building Envelope Renovations (units)[3]	**4,260**	**16,305**

1. Units built in the coastal climate zone which attract a $750 reconstruction fee and a $25 HPO licensing fee.
2. Includes detached dwellings throughout B.C. as well as multi-unit dwellings outside of the coastal climate zone, which attract only the $25 per unit HPO licensing fee.
3. Building envelope renovations attract a $25 per unit HPO licensing fee. Cumulative total is October 1, 2000 to March 31, 2004.

2·5·10 Year Warranty®

2 years on labour and materials
5 years on the building envelope
10 years on structure

Report on Performance

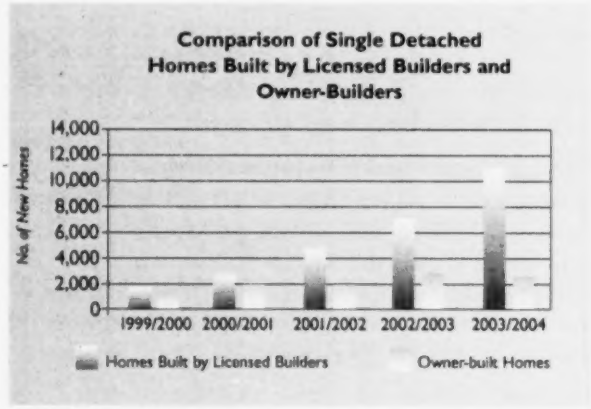
Compliance—The first conviction related to the *Homeowner Protection Act* occurred in March 2003. A Licensed Residential Builder was fined $5,000 for failure to provide home warranty insurance. The builder's licence was cancelled and the director nominee who held that licence will not be able to act as a director for any other licensed residential builder for a period of five years.

A significant portion of the compliance team's time is spent monitoring the owner-builder exemption from the licensing and warranty insurance requirements of the *Act*. Individuals building a detached home for their own personal use are not required to be licensed or arrange for home warranty insurance. Compliance officers monitor this exemption and investigate false and misleading claims to ensure that landowners and unscrupulous builders do not abuse the owner-builder exemption to avoid licensing and home warranty insurance requirements put in place to protect consumers.

Given the inappropriate level of abuse of this exemption, the HPO board of directors has formed a false owner-builder task force to consult with the industry. The task force's findings will contribute to the board's future recommendations to the Province regarding proposed changes to the *Homeowner Protection Act* and regulations.

2003-04 Compliance Highlights
as of March 31, 2004

- Licensed Residential Builder survey results
  - 72% are satisfied with the HPO's compliance efforts
  - 63% believe that the abuse of the owner-builder exemption is a problem
  - 55% would like to see changes to the owner-builder exemption process



builder accountability and consumer protection

Home Warranty Insurance—In B.C. the mandatory minimum home warranty insurance coverage on new homes and residential building envelope renovations is set by legislation. As such, all new homes constructed by Licensed Residential Builders must be covered by the strongest construction defect warranty in Canada, which includes 2 years on labour and materials, 5 years on the building envelope and 10 years on structure (2-5-10 year warranty insurance).

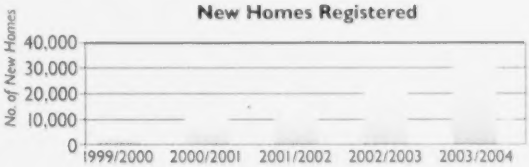
In addition, applicable residential building envelope renovations are covered by home warranty insurance, which includes 2 years on labour and materials and, if 60% or more of the cladding surface on any face of the building is replaced, a 5-year water penetration warranty is also required.

This home warranty insurance may only be sold by insurance companies that are approved by the office of the Superintendent of Financial Institutions (OSFI) and by B.C.'s Financial Institutions Commission (FICOM). As of March 31, 2004 there were five companies offering home warranty insurance in British Columbia.

Building Envelope Renovations

Repaired Units with Warranty Insurance

New Homes Registered



1999/2000 data is for July 1 to March 31st.

New Homes Registered and Building Envelope Renovations Under the *Homeowner Protection Act*

	2003/2004	Cumulative: July 1, 1999. March 31, 2004
Coastal Multi-Unit Dwellings (units)[1]	14,682	35,011
Other Dwellings (units)[2]	14,115	45,297
Owner-Builder Exemptions (single detached homes)	2,771	11,789
HPO Warranty Exemption (multi-unit)	1,623	5,120
Total Starts	**33,191**	**97,217**
Building Envelope Renovations (units)[3]	**4,260**	**16,305**

1. Units built in the coastal climate zone which attract a $750 reconstruction fee and a $25 HPO licensing fee.
2. Includes detached dwellings throughout B.C. as well as multi-unit dwellings outside of the coastal climate zone, which attract only the $25 per unit HPO licensing fee.
3. Building envelope renovations attract a $25 per unit HPO licensing fee. Cumulative total is October 1, 2000 to March 31, 2004.

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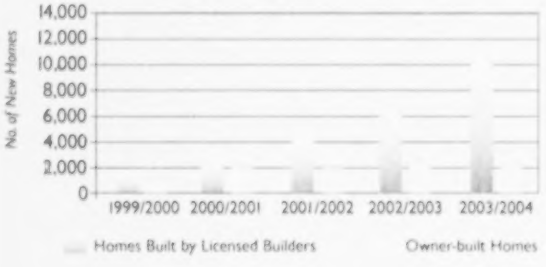
Comparison of Single Detached Homes Built by Licensed Builders and Owner-Builders



The HPO provides financial assistance to owners of leaky homes in the form of the Reconstruction Loan and the PST Relief Grant programs.

Business Areas and Outputs *(cont'd)*

Financial Assistance

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The Reconstruction Loan Program—This program provides no-interest loans to eligible owners of leaky homes who do not have enough savings or do not qualify for a conventional loan to pay for the building envelope repairs. The goal of the program is to ensure that owners do not lose their homes due to the cost of their building envelope repairs.

The loans cover both the cost of the repair and any related legal expenses. In most cases the homeowner's lending institution provides the principal on the loan and the HPO pays the interest on the loan to the lending institution on behalf of the owner. The homeowner makes monthly, principal-only payments on the loan to their lending institution. These payments are set at affordable levels by the HPO through individual consultations with the homeowner. In cases where the minimum payment of $50 is not affordable, in particular for seniors on fixed incomes, a deferred payment loan may be arranged. Deferred payment loans allow the homeowner to receive the full amount required to repair their home, but they do not have to make payments for as long as they live in the home.

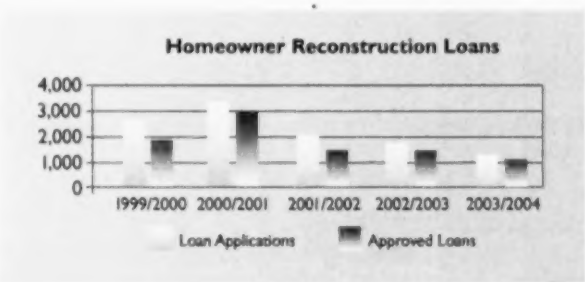
The federal government's set contribution of $27.7 million was exhausted in October 2003. Although the cost sharing agreement with the federal government has ended, the Province continues to provide funds for all eligible applicants.

financial assistance to homeowners

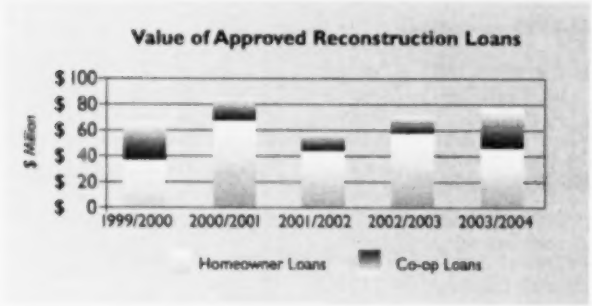
Ken Rehill, Manager, Loans

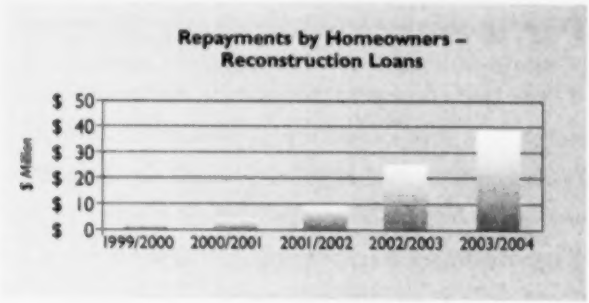
2003-04 Reconstruction Loan Program Highlights
as of March 31, 2004

- 1,067 homeowner loans were approved with a total value of $45.8 million. The average homeowner loan was $27,574 as of March 31, 2004.
- Deferred payment loans represented 19% of homeowner loans totaling more than $8.5 million in financial assistance.
- Homeowners made loan repayments totaling $38.9 million during the year.
- The HPO approved 12 housing co-operative loans representing 667 units. The total value of co-op loans approved was $33.5 million that includes increases to loans from past years. The average per unit loan was $38,090 as of March 31, 2004.
- Since the HPO's inception in 1998, 9,545 homeowner loans and 46 co-op loans (representing 2,656 units) have been approved totaling over $364.4 million in financial assistance.



Report on Performance



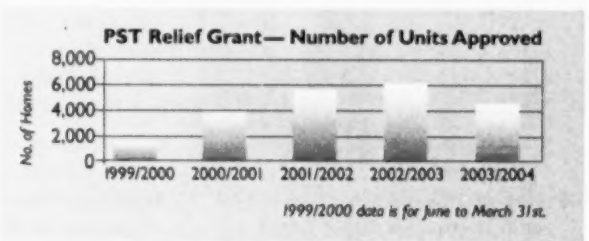


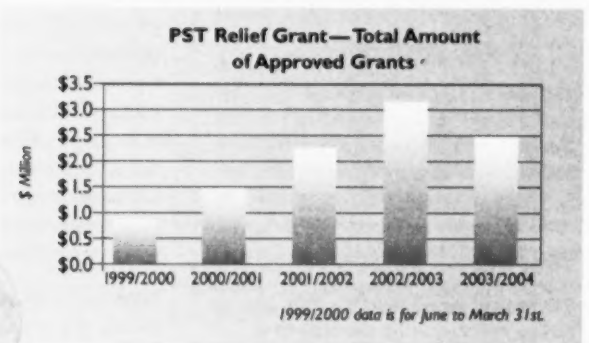
PST Relief Grant Program—This program is intended to provide some financial relief to owners of leaky homes who have undertaken necessary repairs. The program provides a rebate on completed building envelope renovations and is available to owners of condominiums, townhouses, detached homes and housing co-operatives. Generally, about 40% of all building envelope renovation costs are subject to PST.

2003-04 PST Relief Grant Highlights
as of March 31, 2004

- 79 applications representing 4,043 homes were approved for PST Relief Grants totaling $2.5 million.
- Since the PST Relief Grant was introduced in 1999, $10 million in grants to owners in 21,561 homes have been approved with an average grant per home of $465.

The individual situation of each applicant is assessed to determine eligibility.





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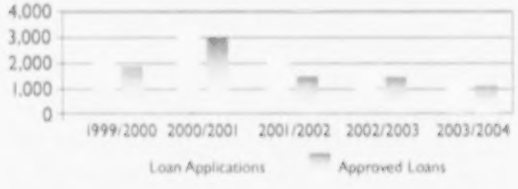
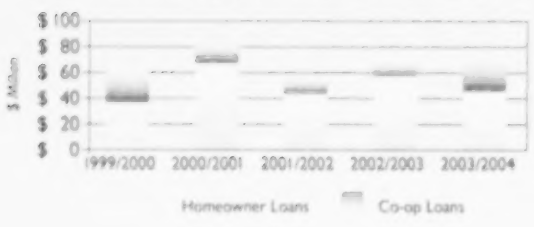
Homeowner Reconstruction Loans



Value of Approved Reconstruction Loans



Repayments by Homeowners – Reconstruction Loans

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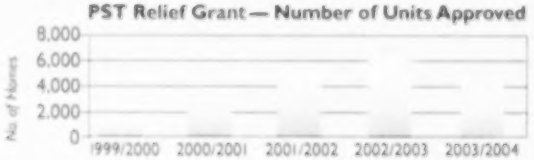
PST Relief Grant — Number of Units Approved



1999/2000 data is for June to March 31st.

PST Relief Grant — Total Amount of Approved Grants

1999/2000 data is for June to March 31st.

Performance Measures, Targets and Results

There are eleven performance measures to track the HPO's progress towards meeting its key goals and objectives. Measures include satisfaction ratings as well as indicators of effectiveness and responsiveness in the various program areas. This year a new performance measure has been added which relates to builder satisfaction with the licensing system. The other ten performance measures have been refined and clarified where necessary.*

Goal 1: Strengthen Consumer Protections for Homebuyers and Homeowners

Year	Target	Actual
2002/03	Collect baseline data	83%
2003/04	**Surveyed once every two years**	-
2004/05	85%	
2005/06	Surveyed once every two years	
2006/07	90%	

Homeowner Satisfaction with Home Warranty Insurance

This measure tracks homeowner satisfaction with the protection provided by warranty insurance on their new homes. Baseline data was obtained from a Fall 2002 survey of homeowners. This survey will be carried out in the 2004/2005 fiscal year with a targeted satisfaction level of 85%.

In 2002, 83% of homeowners were satisfied with the protection provided by their home warranty insurance. Satisfaction levels were consistent by housing type, i.e., those with single detached homes vs. condominiums, and by region of the province. Younger buyers (34 years and under) showed a higher degree of satisfaction with their warranty insurance at 91%.

With the July 1999 introduction of warranty insurance requirements, 2002 data reflects homeowners who are at the initial years of coverage. Over time, data will include homeowners with policies at all years of coverage which includes, at a minimum, 2 years on materials and labour, 5 years on building envelope and 10 years on structure.

Year	Target	Actual
2001/02	70% or higher	68%
2002/03	70% or higher	76%
2003/04	**72% or higher**	**83%**
2004/05	80% or higher	
2005/06	83% or higher	
2006/07	85% or higher	

Investigations Resulting in Voluntary Compliance Under the *Homeowner Protection Act*

This measure focuses on the effectiveness of HPO compliance activity in reducing abuse of the owner-builder exemption from licensing and home warranty insurance requirements. A target of 80% means that 80% of owner-builder investigations by compliance staff confirmed and/or resulted in voluntary compliance with the *Homeowner Protection Act*.

Voluntary compliance means that the owner either met the owner-builder requirements under the *Act*, or chose to become a Licensed Residential Builder.

Investigations by compliance staff typically involve visits to construction sites as well as follow-up site visits, calls or enquiries as needed. The emphasis of compliance activity is to convince unlicensed builders to become licensed and provide warranty insurance on the new home.

The 2003 survey of Licensed Residential Builders found that 72% of builders felt that HPO's compliance efforts were effective, and 28% felt that they were ineffective.

* 2003/04 targets are from the 2003-2006 Service Plan. Targets for the 2004/05 to 2006/2007 period are from the 2004-2007 Service Plan.

Recovery of Home Values Following Building Envelope Renovations

Year	Target	Actual
2002/03	collect baseline data	55%
2003/04	**50% or more**	**77%**
2004/05	60% or more	
2005/06	65% or more	
2006/07	70% or more	

This measure tracks the improvement of assessed value of homes following the completion of building envelope repairs. It is calculated as the percentage of homes that have recovered 90% or more of the value of the cost of repairs in the assessed value of their homes.

Assessed values are adjusted on an annual basis by the B.C. Assessment Authority to reflect changes in market value of the homes, and takes into account such factors as property improvements or renovations, and sales for comparable properties in the neighbourhood. Assessment data offers the opportunity to track increase in home values including those that have not been put on the market or sold by owners.

It should be noted that annual reporting for this measure includes a 6-month time lag due to the annual property assessment cycle, i.e., assessed values as of July 1 are used in the calculation.

In 2003/04 77% of homes have recovered 90% or more of the value of the cost of repairs in the assessed value of their home. This is a sharp jump from the previous year when 55% of homes had recovered this amount, reflecting stronger housing demand and higher resale prices over the past year. Future targets to 2006/07 will be evaluated to possibly take into account changing housing market conditions.

Among the home values analyzed for this measure, the average pre-repair price had risen from $106,500 to $145,100 post repair. The analysis is based on 2003 assessed values and includes all homes with completed building envelope renovations under the Homeowner's Reconstruction Loan Program since 1998.

The analysis is based on data for nearly 7,270 homes with repair loans in over 420 buildings in the coastal climate zone of B.C.

Reconstruction Loan Default Rate

Year	Target	Actual
2001/02	4% or less	0.80%
2002/03	4% or less	0.85%
2003/04	**4% or less**	**1.2%**
2004/05	1% or less	
2005/06	1% or less	
2006/07	1% or less	

This measure tracks the effectiveness of the Homeowner's Reconstruction Loan Program in helping to ensure that homeowners don't lose their homes as a result of building envelope repair costs.

The Reconstruction Loan Program provides no-interest loans to owners of leaky homes who would not otherwise be able to obtain financing for repair costs, e.g., may be experiencing an overall high debt to equity ratio. Loan recipients pay affordable principal-only monthly payments with a minimum of payment of at least $50 per month.

This measure compares the number of reconstruction loans in default to the 9,545 loans issued through the program. The actual default rate was 1.2% in 2003/04, slightly higher than the previous year, but still within the target of 4%.

The Reconstruction Loan Program default rate was higher than default rate of all residential housing loans or mortgages for B.C. and Canada which were 0.37% and 0.33% respectively as of December, 2003 (Source: Canadian Bankers Association). The higher default rate for the Reconstruction Loan Program is likely a reflection of the more difficult financial situation of loan recipients.

Reconstruction Loan Program

Report on Performance

Goal 2: Foster an Improvement in the Quality of Residential Construction

Builder Satisfaction with the Licensing System

Year	Target	Actual
2003/04	**Collect baseline data**	**83%**
2004/05	Surveyed once every 2 years	
2005/06	88% or higher builder satisfaction	
2006/07	Surveyed once every 2 years	

builder satisfaction

This new measure tracks Licensed Residential Builder satisfaction with the HPO licensing system. Baseline data for this measure was obtained through a 2003 survey of all licensed builders in the province.

The survey found that 83% of Licensed Residential Builders were satisfied with the HPO licensing system.

Sub-components of satisfaction being tracked include:

- fairness of the rules/requirements (76% satisfied)
- application process (86% satisfied)
- renewals process (82% satisfied)
- timeliness of licensing decisions (92% satisfied), and
- interest in making education and training a condition of licensing (70%).

Lower levels of satisfaction were reported in the Kootenays and in central and northern B.C.

The next survey of Licensed Residential Builders will be carried out in the 2005/2006 fiscal year.

Homes Built Under the *Homeowner Protection Act* with Warranty Insurance Claims

Year	Target	Actual
2002/03	Collect baseline data	5%
2003/04	**10% or less**	**n.a.**
2004/05	5% or less	
2005/06	4% or less	
2006/07	3% or less	

This measure is an indicator of the quality of residential construction in British Columbia in terms of the number of claims made by homeowners under their home warranty insurance coverage. The number of claims is compared to the number of homes enrolled during the specified period.

In 2002/03, results from the homeowner satisfaction survey were used as a proxy data, specifically the percentage of homeowners who have experienced a problem with their home's workmanship, materials or structure, and who have involved their warranty insurance company in resolving the problem.

Data on claims made by homeowners has not been provided by warranty providers to the HPO for 2003/2004. It is expected that the HPO will be able to report on this important performance measure in 2004/05.

The claims process is set out in the *Homeowner Protection Act*. The homeowner must provide the warranty provider and residential builder written notice in reasonable detail that provides particulars of any specific defects covered by the home warranty insurance. Upon receipt of a notice of claim, a warranty provider must make reasonable efforts to respond, evaluate the claim and schedule any required repairs. During the evaluation, the warranty provider determines the validity of the claim, and notifies the owner of the reasons for the decision.

In Ontario, Tarion, formerly known as the Ontario New Home Warranty Program (ONHWP), experienced a claims rate of 1.7% in 2002. Conciliation and claim inspections were carried out on 4.5% of homes enrolled. B.C.'s 2002/03 baseline data from the homeowner survey of 5% is similar to Ontario's conciliation and claim inspection rate of 4.5%.

Report on Performance

Year	Target	Actual
2001/02	5 business days or less	4.0 business days
2002/03	5 business days or less	3.1 business days
2003/04	**5 business days or less**	**3.6 business days**
2004/05	3 business days or less	
2005/06	3 business days or less	
2006/07	3 business days or less	

Timeliness of Licensing Decisions on Complete Applications

This is a measure of the HPO's responsiveness in making residential builder and building envelope renovator licensing decisions. Specific targets are set to ensure that HPO licensing decisions are made quickly, thus avoiding unnecessary and potentially costly delays for residential builders.

The licensing approval process typically involves verification of company information, acceptance with a home warranty insurance provider, and past residential construction activity.

HPO licensing timelines compare well with similar or related organizations:

- Washington State contractor registration — 5 days or more, online renewals can be processed the same day.
- Maryland Home Builder Registration (similar requirements as B.C.)— 5 to 7 days
- Tarion, formerly known as Ontario New Home Warranty Program, builder registration — 2 to 4 weeks.
- The Builders' Registration Board of Western Australia — 6 to 8 weeks.

Residential Builder

Licence Application and Agreement

measuring HPO's responsiveness

Goal 3: Increased Research and Education

Research Results Disseminated through Symposiums, Seminars and Workshops

Year	Target	Actual
2000/01-2001/02	During this 2 year cycle, 1 major symposium or publication and 12 educational sessions.	HPO and its partners presented B.C.'s first 1-day Building Envelope Research Symposium profiling all HPO research projects carried out to date.
2002/03-2003/04	**During this 2 year cycle, 1 major symposium or publication and 12 educational sessions.**	**HPO funded research, including the "Water Penetration Resistance of Windows" publication, was profiled at 19 industry educational sessions which includes the first five sessions of Building Smart: Avoiding Moisture Problems in Houses seminar; the HPO is a contributing partner for funding the Innovations in Building Science Symposium hosted by the BC Building Envelope Council which was held in May, 2004.**
2004/05-2005/06	During this 2 year cycle, 1 major symposium or publication and 20 educational sessions.	

Recognizing the critical role of ensuring that research results are disseminated to industry and consumers, this measure focuses on the HPO's participation in major research symposia or publications, and the delivery of educational sessions.

Educational sessions are generally sponsored by industry associations and other organizations that best know how to disseminate technical information their members.

The HPO also continued to participate in the Building Research Committee (formerly BERC) of the B.C. Building Envelope Council, and Canadian Homebuilder technical and education & training and technical advisory committees as a means of disseminating research results.

Research Results Incorporated into Building Standards and Best Practices

Year	Target	Actual
2002/03	HPO participates on National Building Code committees and in development of best practice guides and training courses.	HPO representative on National Building Code Standing Committees (2) on Houses and Environmental Separation, and CSA Strategic Steering Committee on Building Products & Systems.
2003/04	**Participation in federal and provincial processes to update the current building code, and to develop best practice guides and training courses.**	**Continued involvement in the committees noted above. As a follow-up to the research on water penetration resistance of windows, the HPO has entered into a partnership to co-fund the development of a best practice guide on windows.**
2004/05 2005/06 2006/07	Participation in federal and provincial processes to update the current building code, and to develop best practice guides and training courses.	

This measure looks at the effectiveness of the HPO in ensuring that the results of research projects are incorporated into standards, codes and best practices.

The performance measure tracks HPO's participation on national and provincial code committees, and involvement in the development of best practice guides and training courses.

standards
codes
best practices

Report on Performance

Resources Leveraged by the HPO Through Other Funding Partners

Year	Target	Actual
2001/02	At least twice the amount invested by HPO leveraged through partnerships	Contribution by partners represented 78% of total project funding
2002/03	At least twice amount invested by HPO leveraged through partnerships	Contribution by partners represented 79% of total project funding
2003/04	**At least twice amount invested by HPO leveraged through partnerships**	**Contribution by partners represented 42% of total project funding**
2004/05	At least twice amount invested by HPO leveraged through partnerships	
2005/06	At least twice amount invested by HPO leveraged through partnerships	
2006/07	At least twice amount invested by HPO leveraged through partnerships	

This measure monitors the effectiveness of the HPO in leveraging additional resources for research and education initiatives with industry partners. The target is to leverage at least twice the amount invested by the HPO by other partners for projects that were completed or underway during the fiscal year. At 42% of total project funding, the amount leveraged through partnerships in 2003/04 falls below this target.

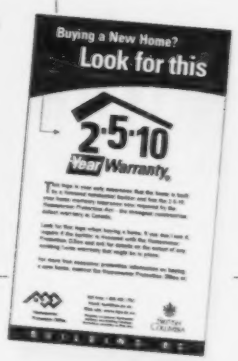
Projects that were completed or underway represented $105,575. Our partners committed an additional $75,300 to these projects for a total financial commitment of $180,875.

The HPO's investment represented a larger share of the total project funding in 2003/04 compared to the previous year. This is due to several key research and education projects, most notably the survey of Licensed Residential Builders and the Building Smart seminar series, for which limited partner resources were sought.

The principal funding partner is Canada Mortgage and Housing Corporation. Other partners include BC Housing, industry associations, manufacturers and educational institutions.

Homebuyer Awareness of Consumer Protections Under the *Homeowner Protection Act*

Year	Target	Actual
2002/03	Collect baseline data	73% for licensing 45% for home warranty insurance
2003/04	**Surveyed every two years**	***To be surveyed in 2004/05***
2004/05	80% for licensing 55% for home warranty insurance	
2005/06	Surveyed every two years	
2006/07	90% for licensing 70% for home warranty insurance	



This measure tracks prospective homebuyer awareness of the consumer protection measures in place in B.C., specifically licensing of residential builders and warranty insurance requirements. This measure will be tracked through a survey of prospective homebuyers every two years.

In 2002/03, awareness levels of licensing requirements did not vary significantly across different groups, e.g., respondents' age, region of province, first-time buyers or house type such as condo or detached. Awareness levels of warranty insurance requirements were more variable, for example, with lower levels of awareness among first-time buyers and younger buyers, and higher levels of awareness among prospective buyers of condos.

Baseline data for this measure was obtained through a survey of prospective new homebuyers in the Fall of 2002. The results have a 95% confidence level and are considered accurate to within 5 percentage points.

Performance and Alignment with Provincial Government Priorities

This annual report describes the HPO's performance towards achieving the three key goals: 1) strengthening consumer protection for homebuyers and homeowners, 2) fostering an improvement in the quality of residential construction, and 3) increased research and education. These goals are closely aligned with Government's priorities of supporting a strong and vibrant provincial economy by fostering growth and consumer confidence in B.C.'s residential construction sector. This sector is a major economic driver in the province, contributing to the province's gross domestic product at a level that is comparable to other major industries in the province such as forestry and utilities. Strong consumer confidence in the residential construction sector contributes to greater demand for new homes, and thus, creates new, higher-paying jobs and employment opportunities for British Columbians.

Glossary of Terms

Building Envelope means the assemblies, components and materials of a building that are intended to separate and protect the interior space of the building from the adverse effects of exterior climatic conditions.

Building Envelope Renovation means construction work on a residential building:

a) to repair defects in the building envelope which allow unintended water penetration, or
b) to repair damage caused by unintended water penetration.

Building Envelope Renovator means a residential renovator who is licensed under Part 1 of the *Homeowner Protection Act* to engage in, arrange for or manage all, or substantially all, of a building envelope renovation.

Owner-builder means an individual who builds a single, detached home for their own personal use, not more than once in an 18-month period.

Residential Builder means a person who engages in, arranges for or manages all or substantially all of the construction of a new home, and includes a developer and a general contractor.

Homeowner
Protection Office

Homeowner Protection Office

Financial Report

31 March 2004

Building BC

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Linda McKay, Manager, Accounting

The purposes of the Homeowner Protection Office are to license residential builders and other persons required to be licensed under the *Act*; to carry out research and education respecting residential construction in British Columbia; and to administer the Reconstruction Program established to provide financial assistance to eligible homeowners for home reconstruction. The HPO also administers the Provincial Sales Tax (PST) Relief Grant Program on behalf of the Province.

For the year ended March 31, 2004, the HPO's net income was $4.64 million up significantly from a net income of $3.53 million in the year ended March 31, 2003. This increase is attributable to rising revenues and a slight decrease in current costs excluding the Reconstruction Program. When the results are considered excluding the Reconstruction Program, the net income for the year ended March 31, 2004 was $203,000. The HPO has fulfilled its break-even commitment for combined programs excluding the Reconstruction Program.

The income attributed to the Reconstruction Levy increased 43% to $10.22 million for the year ended March 31, 2004. This increase is a result of the continued growth in new multi-unit home construction in the coastal climate zone. The levy is only collected on the construction of multi-unit homes for which home warranty insurance is provided in B.C.'s coastal climatic zone. Under the *Act*, these funds must only be used for the purposes of the Reconstruction Program. The expenditures on reconstruction loans continued to decline this year due to the reduction in the demand for financial assistance and the continuation of loan pay-downs. Loan pay-downs are a result of a continued strong housing market in which homeowners are selling their homes and paying off their reconstruction loans. We believe that the Reconstruction Program expenditures will continue to decline as the inventory of homes with building envelope failures declines and fewer loan applications are received.

The Government of Canada through the Canada Mortgage and Housing Corporation (CMHC) provided a contribution to the Reconstruction Program equal to fifty percent of the Reconstruction Program expenditures net of interest revenue to a maximum of $27.7 million. The total commitment from the Government of Canada was reached in October, 2003. Thus this year's federal contribution is down significantly from last year as the maximum funding limit has now been exhausted.

License fees collected increased 19% this year to $2.94 million from $2.47 million. The increase in fees is due to both the continued increase in the number of residential builders during the year and the continued growth in new home construction. Expenditures for the Licensing Program are down slightly from $1.98 million in 2002/03 to $1.91 million for the year ended March 31, 2004.

The Research and Education program had expenditures of $269,000 during 2003/04. This is a decrease from the previous year's expenditures of $288,000. This occurred mainly due to a number of projects being in progress and not yet completed. Final

payments will be made upon completion of the projects. We continue to leverage our contribution for research studies through partnerships with other organizations.

Provincial contributions for the PST Relief Grant Program for the year ended March 31, 2004 decreased by $606,000 over the previous year. The number of applications under the PST Relief Grant Program is down from the previous year. Since the program was introduced in 1999, $10 million in grants has been approved. HPO believes we will continue to see demand for this program into the forseeable future as repairs are completed to damage caused by premature building envelope failure, and as those who have already completed repairs eventually submit their PST Relief Grant applications.

This has been another year of growth and continued demand for the HPO's program areas as the residential construction sector activity increases, research is completed and disseminated to industry and consumers, and more leaky homes are repaired.

Another year of growth and demand for HPO's program areas

Homeowner
Protection Office

Homeowner Protection Office

Financial Statements *31 March 2004*

Building BC

To the Board of Directors
of the Homeowner Protection Office, and

To the Minister of Community, Aboriginal
and Women's Services,
Province of British Columbia:

I have audited the balance sheet of the *Homeowner Protection Office* as at March 31, 2004 and the statement of revenues and expenditures and surplus/(deficit) and the statement of cash flows for the year ended March 31, 2004. These financial statements are the responsibility of the Office's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the *Homeowner Protection Office* as at March 31, 2004 and the results of its operations and its cash flows for the year ended March 31, 2004, in accordance with Canadian generally accepted accounting principles.

Wayne Strelioff

Victoria, British Columbia
April 23, 2004

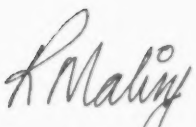
Wayne Strelioff, FCA
Auditor General

Statement of Management Responsibility

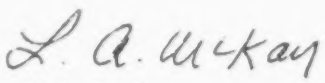
The financial statements of the Homeowner Protection Office (the "Office") have been prepared by management in accordance with Canadian generally accepted accounting principles, consistently applied and appropriate in the circumstances. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized in the notes to financial statements.

Management depends upon a system of internal controls that provide reasonable assurance, on a cost-effective basis, that the financial information is reliable and accurate. The Office's external auditors independently perform such tests of the system of internal controls as they consider necessary for the purpose of expressing their opinion on the financial statements.

The Audit and Finance Committee, which is comprised of directors who are not employees, oversees management's discharge of its financial reporting responsibilities. The committee meets periodically with management and the external auditors to discuss auditing, financial reporting and internal control matters. The external auditors have access to the Audit and Finance Committee without management's presence.



Bob Maling
Acting Chief Executive Officer



Linda McKay
Manager, Accounting

April 23, 2004

Balance Sheet

As at March 31

	2004 ($000's)	2003 ($000's)
ASSETS		
CURRENT ASSETS		
Cash	$ 349	$ 338
Cash for reconstruction and PST programs	1,878	2,096
Due from Province of British Columbia (note 4)	5	19
Due from CMHC (note 1)	0	375
Accounts receivable	990	1,054
Prepaid expenses	23	22
Current portion of loans receivable	1,969	1,658
	5,214	5,562
LOANS RECEIVABLE (note 3)	26,573	21,346
CAPITAL ASSETS (note 5)	128	155
	$ 31,915	$ 27,063
LIABILITIES AND SURPLUS (DEFICIT)		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	769	786
Loss provision for CMHC-insured loans (note 2d)	4,239	3,972
Due to Province of British Columbia (note 6)	25,214	25,249
	30,222	30,007
CONTINGENCIES (note 2d)		
COMMITMENTS (note 7)		
SURPLUS (DEFICIT)	1,693	(2,944)
	$ 31,915	$ 27,063

Approved by the Board:

Member:

Member:

The accompanying notes are an integral part of these financial statements.

Statement of Revenues and Expenditures and Surplus (Deficit)

For the year ended March 31

	2004 ($000's)	2003 ($000's)
Revenues		
Reconstruction levies	$ 10,224	$ 7,150
Federal contributions for reconstruction program	4,490	6,890
Loan discount recoveries	3,929	2,833
License fees	2,935	2,469
Provincial contributions	2,626	3,982
Interest	125	120
Other	10	0
	24,339	23,444
Expenditures		
Reconstruction program	14,296	13,867
PST relief grant program	2,576	3,200
Licensing and registrar	1,910	1,977
Finance and administration	651	585
Research and education	269	288
	19,702	19,917
Income (Schedule 1)	4,637	3,527
Deficit, beginning of year	(2,944)	(6,471)
Surplus (deficit), end of year	$ 1,693	$ (2,944)

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flows

For the year ended March 31

	2004 ($000's)	2003 ($000's)
Cash flows from Operating Activities		
Cash received from:		
Residential builders for reconstruction levies	$ 10,387	$ 7,006
Homeowners for principal-only payments on loans	7,540	4,714
Government of Canada for reconstruction program	4,865	6,611
Residential builders for license fees	2,844	2,474
Province of British Columbia for programs	2,626	3,982
Interest	127	120
Partners in funding research and education activities	8	0
Cash paid to:		
Homeowners for reconstruction loans	(15,760)	(15,202)
Financial institutions for interest on CMHC-insured loans	(5,300)	(3,984)
Suppliers and employees	(3,603)	(3,844)
Homeowners for PST relief grants	(2,501)	(3,107)
Province of British Columbia for loan interest	(820)	(578)
Financial institutions for defaults on CMHC-insured loans	(550)	(652)
Cash flows used in operating activities	(137)	(2,460)
Cash flows from Investing Activities		
Purchase of capital assets	(94)	(28)
Cash flows used in investing activities	(94)	(28)
Cash flows from Financing Activities		
Proceeds from borrowing	149	280
Province of British Columbia for PST program	(125)	51
Cash flows from financing activities	24	331
Net (Decrease) in Cash	(207)	(2,157)
Cash, beginning of year	2,434	4,591
Cash, end of year	$ 2,227	$ 2,434
Represented by:		
Cash	349	338
Cash for reconstruction and PST programs	1,878	2,096
	$ 2,227	$ 2,434

The accompanying notes are an integral part of these financial statements.

For the year ended March 31, 2004

1. General

The Homeowner Protection Office (the "Office") was created in 1998 under the *Homeowner Protection Act* S.B.C. 1998, c. 31 (the "*Act*"). The purposes of the Office are:

- to license residential builders and other persons required to be licensed under the *Act*;
- to carry out research and education respecting residential construction in British Columbia; and
- to administer the Reconstruction Program to provide financial assistance to eligible homeowners for home reconstruction.

Effective July 1, 1999, all persons who wish to carry on the business of a residential builder in British Columbia must obtain a licence from the Office's Registrar. Effective October 1, 2000, repair contractors who wish to perform specified building envelope renovations in British Columbia must obtain a licence from the Office's Registrar. The license fees collected, including a per unit licence fee for new or renovated dwelling units, fund all of the operations of the Office except for the Reconstruction and Provincial Sales Tax Relief Grant Programs. The research and education function has a mandate to disseminate information to the residential construction industry and to homeowners in areas such as cost effective building techniques, best practices for retrofitting housing, building code changes and consumer education.

The Reconstruction Program provides subsidized interest loans, no-interest loans and deferred payment loans to owners of homes with premature building envelope failure who are not able to finance or pay for repairs. A reconstruction levy is collected on residential units in multi-unit buildings constructed after July 1, 1999 in the coastal climatic zone. The Government of Canada through the Canada Mortgage and Housing Corporation (CMHC) provided a contribution to the Reconstruction Program equal to fifty percent of the Reconstruction Program expenditures net of interest revenue to a maximum of $27.7 million. The total commitment from the Government of Canada was reached in October, 2003.

The Office also administers the Provincial Sales Tax (PST) Relief Grant Program on behalf of the Province. The Province provides a contribution to the Office to cover the administration costs and grant payments of the program.

The revenue sources and expenditures of these programs are reported in Schedule 1.

2. Significant Accounting Policies

The accompanying financial statements are prepared in accordance with Canadian generally accepted accounting principles that are considered appropriate for the Office. The significant accounting policies are noted below.

a) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Significant areas requiring the use of management estimates relate to the determination of the present value of loans receivable, loan loss provision, and amortization of capital assets. Actual results could differ from the estimates.

b) Capital assets

Capital assets are recorded at cost and amortized on a straight line basis over their estimated useful lives as follows:

Computer software and hardware	Three years
Leasehold improvements	Over the lease term
All other capital assets	Five years

Assets costing less than $1,000 are expensed in the year of purchase.

c) No-interest loans and deferred payment loans

No-interest loans and deferred payment loans provided by the Office are concessionary loans in that no interest is charged to the homeowner. These loans are recorded at their net present value (net of grant component) less any provision required for doubtful collection. Net present value is determined by discounting no-interest loans over their terms and discounting deferred payment loans over 20 years at the provincial borrowing rate for equivalent terms. Present value discounts are recorded as grant expense. Principal repayments are first applied to the reduced loan balance (net present value) and then recorded as revenue (loan discount recoveries) when received.

d) Loss provision for CMHC-insured loans

Loans provided by financial institutions under the Reconstruction Program do not appear on these financial statements. However, the Office has indemnified CMHC for any claims that may be made against the CMHC insurance on these loans up to $250 million. The Office records a 4% loan loss provision on these loans.

e) Federal and provincial taxes

The Office is exempt from corporate income taxes and is not subject to the Goods and Services Tax.

3. Reconstruction Program

Under the *Act*, money paid to the credit of the Reconstruction Program must only be used for the purposes of the program.

Under the Reconstruction Program, financial assistance is provided to homeowners who cannot afford to pay for repairs to their homes with premature building envelope failure. The financial assistance is secured by mortgages registered against the title of the home to be repaired. This financial assistance is provided in the form of subsidized interest loans, no-interest loans or deferred payment loans as follows:

a) Subsidized interest loans through the first mortgage lender

i) Homeowner

Under agreements with financial institutions and CMHC, the Office approves loans to homeowners for repairs to homes with premature building envelope failure and issues CMHC insurance certificates for these loans. The loan is advanced by the financial institution that holds a first mortgage on the property and, as a consequence, does not appear on these financial statements. The homeowner makes monthly principal-only payments to the financial institution. The Office pays interest on the homeowner's behalf to the financial institution at the prime rate of the lender. This interest is reported as interest subsidy on Schedule 1.

ii) Housing Co-operatives

Under an agreement with CMHC, the Office approves loans to housing co-operatives with premature building envelope failure. The loan is advanced by CMHC who is also the first mortgage lender. The housing co-operative makes a monthly principal-only payment to CMHC. The Office pays interest on the housing co-operative's behalf to CMHC. While the repairs are underway and prior to the interest adjustment date (IAD), the Office pays interest at CMHC's Construction Floating Rate. At IAD, the interest rate on a loan is set for an initial five-year term to equal the bid yield of a five-year Government of Canada benchmark bond with approximately five years remaining in its term plus not more than 0.75 percent per annum, compounded semi-annually not in advance. This benchmark is also used to set the interest rate for the second and final five-year term. This interest is included in interest subsidy on Schedule 1.

The Office has not provided guarantees or indemnities for any of the loans to housing co-operatives. The only obligation of the Office with respect to these loans is to pay interest. Consequently, neither the loans nor a provision for losses appear on the balance sheet of the Office.

b) No-interest loans through the Office

In cases where there is no first mortgage or where the first mortgage lender refuses to provide a loan, the Office provides a no-interest loan to the homeowner. The homeowner makes principal-only payments to the Office. Loans advanced directly by the Office are not CMHC insured. The present value of these loans is included in loans receivable on the balance sheet.

c) Deferred payment loans through the Office

In circumstances where eligible homeowners qualify for no-interest loans under the Reconstruction Program, but whose income is such that they cannot afford at least $50 per month as a principal-only loan payment, the Office may approve a deferred payment loan. Deferred payment loans do not accrue interest and do not require any payments to be made for as long as the homeowner lives in the home. If the net sales proceeds of the home, after repaying other mortgages in priority to the deferred payment loan and paying reasonable legal and real estate expenses, are not sufficient to fully repay the deferred payment loan then the shortfall will be forgiven. The present value of these deferred payment loans is included in loans receivable on the balance sheet.

The accompanying notes are an integral part of these financial statements.

d) The Office approved financial assistance as follows:

	Number of Loans	Total Financial Assistance ($000's)	Financial Assistance Reported on the Balance Sheet March 31, 2004 ($000's)	Financial Assistance Reported on the Balance Sheet March 31, 2003 ($000's)
Subsidized interest loans				
- Homeowners (note 3a(i))	$ 6,990	$ 185,157	$ -	$ -
- Housing co-operatives (note 3a(ii))	46	101,168	-	-
No-interest loans (note 3b)	1,385	44,632	44,632	36,417
Deferred payment loans (note 3c)	1,170	33,408	33,408	24,903
Total loans approved	$ 9,591	364,365	78,040	61,320
Less:				
Loans approved but not yet issued				
- Homeowners		(26,163)	(13,079)	(12,195)
- Housing co-operatives		(85,932)	-	-
Present value discount		(20,733)	(20,733)	(18,002)
Loss provision for CMHC-insured loans		(4,239)	-	-
Loan write-offs		(2,573)	(246)	(171)
Loan repayments		(81,027)	(15,440)	(7,948)
Loans receivable		$ 143,698	28,542	23,004
Less: current portion			(1,969)	(1,658)
Loans receivable			$ 26,573	$ 21,346

The present value of the interest to be paid in the future by the Office on the subsidized interest loans approved is $68 million (2003: $56 million).

Loans were approved, but not issued in instances where strata corporations or housing co-operatives had not yet signed contracts for the repair of the building envelope or had not yet passed the final special assessment for the cost of the repairs.

The 46 housing co-operatives contain 2,656 homes.

4. Due from the Province of British Columbia

Under an agreement with the Province of British Columbia (the Province), the Office invests the balance of its overnight bank deposits in the Province's offset interest program. Approximately one month after the interest is earned, this program pays interest to the Office at the prime rate of the Royal Bank of Canada less 1.75%.

5. Capital Assets

	March 31, 2004 ($000's)			March 31, 2003 ($000's)
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Office furniture and equipment	$ 278	$ (261)	$ 17	$ 37
Computer hardware	272	(217)	55	23
Leasehold improvements	173	(147)	26	61
Computer software	168	(157)	11	6
Vehicles	40	(21)	19	28
Total	$ 931	$ (803)	$ 128	$ 155

6. Due to the Province of British Columbia

The Office has the authority to borrow up to a maximum of $75 million from the Province to fund operations and the Reconstruction Program. The Office's Board of Directors has approved borrowing to a maximum of $30 million.

Of the $25.2 million borrowed by the Office, $6 million is due on April 6, 2004 with interest accrued at 2.47%, $6 million is due on April 7, 2004 with interest accrued at 2.08%, $6.1 million is due on April 19, 2004 with interest accrued at 1.99%, $7.1 million is due on April 30, 2004 with interest accrued at 2.09% .

7. Commitments

The Office is committed in the normal course of business to paying interest on homeowners' behalf to financial institutions at the prime rate of the lender.

The Office has minimum rental obligations under operating leases for office space as follows:

Year ending March 31	($000's)
2005	$ 202
2006	199
2007	203
2008	207
2009	211
Total	$ 1,022

8. Related Party Transactions

In the normal course of operations the Office acquired goods and services from the Province and certain Crown corporations, under prevailing trade terms.

9. Employee Benefit Plans

The Office has a defined benefit plan and a defined retirement plan for all of its employees. In addition, the Office has defined health care plans for all employees and retirees.

The employees and employers of the public service and miscellaneous employers contribute to the Public Service Pension Plan (the plan), a jointly trusteed pension plan. The board of trustees, representing plan members and employers, is responsible for overseeing the management of the pension plan, including investment of the assets and administration of benefits. The pension plan is a multi-employer defined benefit pension plan. Basic pension benefits are defined. The plan has about 51,000 active plan members and approximately 28,000 retired plan members.

Every three years an actuarial valuation is performed to assess the financial position of the plan and the adequacy of the plan funding. The latest valuation as at March 31, 2002, indicated a $546 million funding surplus for basic pension benefits. The next valuation will be as at December 31, 2004 with results available in 2005. The actuary does not attribute portions of the surplus to individual employers. The Homeowner Protection Office paid $123,000 for employer contributions to the plan in fiscal 2004 (2003: $115,000).

Employees are also entitled to specific health care and termination benefits as provided for under terms of employment.

Defined contribution plan accounting is applied to these benefit plans as the Office has insufficient information to apply defined benefit plan accounting. As such, the cost of employee future benefits for these plans is recognized as an expense in the year contributions are paid.

Schedule I Revenues and Expenditures by Program

For the year ended March 31

	Reconstruction Program		PST Relief Grant Program	
	2004 ($000's	2003 ($000's	2004 ($000's)	2003 ($000's)
Revenue				
Reconstruction levies	$ 10,224	$ 7,150	$ 0	$ 0
Federal contributions	4,490	6,890	0	0
Loan discount recoveries	3,929	2,833	0	0
License fees	0	0	0	0
Provincial contributions	0	0	2,626	3,232
Interest	87	88	9	7
Other	0	0	0	0
	18,730	16,961	2,635	3,239
Expenditures				
Reconstruction loan grants	6,616	6,827	0	0
Interest subsidy	5,063	4,353	0	0
PST relief grants	0	0	2,501	3,107
Salaries and wages	424	490	57	67
Loss provision on CMHC-insured loans	892	1,103	0	0
Travel, office and other	384	282	7	7
Interest expense	732	613	0	0
Rent and utilities	60	67	7	12
Amortization	25	30	3	5
Communications and printing	9	14	0	1
Legal and professional fees	91	88	1	1
Research studies	0	0	0	0
Consumer and industry education	0	0	0	0
	14,296	13,867	2,576	3,200
Income (Loss)	$ 4,434	$ 3,094	$ 59	$ 39

Schedule I Revenues and Expenditures by Program

Licensing & Registrar		Finance & Administration		Research & Education		Total	
2004 ($000's)	2003 ($000's)	2004 ($000's)	2003 ($000's)	2004 ($000's)	2003 ($000's)	2004 ($000's)	2003 ($000's)
$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 10,224	$ 7,150
0	0	0	0	0	0	4,490	6,890
0	0	0	0	0	0	3,929	2,833
2,127	1,807	664	507	144	155	2,935	2,469
0	750	0	0	0	0	2,626	3,982
21	18	7	5	1	2	125	120
0	0	2	0	8	0	10	0
2,148	2,575	673	512	153	157	24,339	23,444
0	0	0	0	0	0	6,616	6,827
0	0	0	0	0	0	5,063	4,353
0	0	0	0	0	0	2,501	3,107
1,123	1,146	408	424	116	105	2,128	2,232
0	0	0	0	0	0	892	1,103
377	380	155	68	32	27	955	764
21	25	7	7	1	2	761	647
148	172	45	48	10	15	270	314
69	86	19	22	4	7	120	150
130	133	8	9	14	9	161	166
42	35	9	7	15	2	158	133
0	0	0	0	70	115	70	115
0	0	0	0	7	6	7	6
1,910	1,977	651	585	269	288	19,702	19,917
$ 238	$ 598	$ 22	$ (73)	$ (116)	$ (131)	$ 4,637	$ 3,527

Homeowner
Protection Office

PO Box 11132 Royal Centre
Suite 2270
1055 W Georgia St
Vancouver BC
Canada V6E 3P3

604 646 7050 *telephone*
604 646 7051 *facsimile*
1 800 407 7757 *toll-free*
www.hpo.bc.ca *Web site*
hpo@hpo.bc.ca *email*